

Consumer Spending Trends and How to Cope in the New Year

2008 was a harsh year, and the 2009 forecasts from analysts and experts aren't promising. First Data has some suggestions to help you survive the crisis while keeping the future success of your business in mind.

Forbes.com (12/1/08) says mortgage foreclosures, which topped 2 million in 2008, could near 3 million in 2009. Credit card charge-offs are headed for historic highs. Moody's Investors Service has predicted charge-offs as high as 8.5 percent by the end of 2009, compared to averages of about 5.5 percent since 1994. Michael Niemira, chief economist for the International Council of Shopping Centers, predicts 148,000 stores will shut down in 2008 and as many as 73,000 retail locations will close in the first half of 2009—the most since 151,000 stores closed in the recession of 2001. The majority of analysts are saying the economic environment won't change anytime soon, with consumer confidence at an all-time low (source: Conference Board) and unemployment at a 15-year high (source: Bureau of Labor Statistics).

While there aren't many indications the desolate predictions are off base, there are some positives. In general, analysts don't see a full-scale depression

occurring and some even think the economy could start improving as early as the end of the second quarter of 2009.

Getting through the Crisis—and Being Ready for Success on the Other Side

The experts agree you can work through this crisis, even if they don't offer a "one-size-fits-all" coping strategy. There is no single formula for how to weather this storm, but most industry experts agree on the following tenets:

1. Avoid short-term decisions that jeopardize your long-term customer relationships
2. Focus cost-cutting activities in non-strategic areas and accelerate optimization projects
3. Beware: Fraudulent activity increases in difficult economic times

"Consumer spending hasn't died, consumers are just spending less. So the winners are whoever is taking more market share amid smaller levels of purchases. The question becomes who is in the best position to take advantage if the consumer does come back in 2009. I think it's retailers who have low inventory and are financially stable."

– Eric Beder, retail analyst with Brean Murray, Carret & Co.

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How Can First Data Help?

Avoid short-term decisions that jeopardize your long-term customer relationships. Since overly liberal credit policies were one driver of the current economic crisis, a normal tendency would be to overcompensate and restrict credit indiscriminately. In recent weeks, stories of banks eliminating all lines of credit, raising interest rates and dumping risky customers have been rampant. Similarly, new-account solicitation activity was down nearly 30 percent in the third quarter of 2008 compared to the same period in 2007. These actions compounded with historically low consumer confidence levels toward the financial community can result in a mass customer exodus from major banks, potentially to the advantage of community banks that have been less impacted by the current crisis. Now more than ever, financial institutions need to reassure their higher-value customers and continue to attract new ones. Additionally, with total consumer debt at unprecedented highs, successful collections operations are adapting strategies in hopes of recouping at least some of the outstanding debt. Hardball collections tactics of the past are increasingly less effective, especially in the credit card arena where several large agencies have begun to negotiate much more flexible payment plans in an effort to reap both short- and long-term gains.

First Data can help. Leveraging the power of your customers' information coupled with First Data's powerful analytics solutions, we can help you develop customer interaction strategies that maximize acquisition, retention and collections effectiveness:

- Fast, effective customer campaign management—create customer specific marketing offers using customer transaction data
- Predictive modeling to help assess customer risk of non-payment or inactivity
- Cost effective communication tools to communicate with customers via mail, e-mail, short message service (SMS) and automated voice messaging

- Data solutions that efficiently enhance traditional credit scoring and provide rich demographic insights

In times of crisis, you need to react quickly—First Data can help you bypass traditional internal campaign management obstacles to define and execute campaigns in a fraction of the time it normally takes.

"This (recession) could last a long time. We can't assume that this will turn around quickly. There have always been economic downturns. When it's going on, it seems special and unique. It's not a real reason to change the way to manage your investments and the way you manage your company."

— John R. Percival, adjunct professor of finance and academic director, Creating Value Through Financial Management

Focus cost-cutting activities in non-strategic areas and accelerate optimization projects. Now more than ever, it's critical for financial institutions to focus on core competencies and leverage partners for non-core operations. Immediate gains can be realized from outsourcing non-core operations, especially those that require short-term capital investment to remain competitive. This is the core business of First Data—some areas to consider for the quickest gains include outsourcing the following elements:

- ATM services
- Remittance processing
- Bill print and delivery
- Electronic bill presentment and payment processing
- Credit and debit card processing
- Customer communications including digital and live agent
- Settlement services

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Beware: Fraudulent activity increases in difficult economic times. It's a fact: desperate times lead to desperate acts. During difficult economic times, it's not uncommon for people in a financially difficult situation to consider committing fraud. Instances of check kiting and deposit, and bust-out fraud typically increase during recessionary times. In addition, "familiar fraud" increases—when legitimate, open accounts of friends and family members are used illegally.

Consider this: 120 million cards were compromised in 2007. The number of data breaches in the first half of 2008 was more than 70 percent higher than during the same period in 2007. Any type of fraud, particularly data compromises, can have a catastrophic effect on any size financial institution. Using an industry average of \$1,100 loss per card, an issuer with 300 compromised cards could experience a net fraud loss of \$165,000 with a 50 percent fraudster use rate (150 cards used).*

First Data has the tools to help you catch fraudulent activity before it happens.

SafeID Multi-Factor Authentication Suite

- The AuthentiQ/SafeID Questions tool addresses two-factor authentication through the use of automated out-of-wallet questions to validate valued customers and identify potential fraud in seconds
- Our SafeID Keystroke™ solution measures the keystroke rhythms of a user as he or she types in a login and password. The tool develops a unique biometric identification of the user's typing pattern for online authentication
- Our SafeID Address Score™ solution verifies the validity of change-of-address requests by analyzing and comparing input variables against known public record information

Exclusive Information Solutions for ID Verification and Risk Assessment

- Our FastDataSM tool is a case-by-case online search instrument for individual and business—accessing millions of records from leading data suppliers and uses proprietary matching logic for superior, integrated results
- The FirstPursuit[®] solution provides online access to credit report header information for over 400 million credit files from Equifax and TransUnion enabling lower-cost access to critical risk assessment information
- The 1Check™ tool identifies consumer accounts originating with a returned check and related details to confirm contact information and assess payment risk

A Global Leader in Electronic Commerce

First Data powers the global economy by making it easy, fast and secure for people and businesses around the world to buy goods and services using virtually any form of payment. Serving millions of merchant locations and thousands of card issuers, we have the expertise and insight to help you accelerate your business. Put our intelligence to work for you.

To discuss these and other ideas on how First Data can help your business thrive in this economy, contact your sales representative or visit www.firstdata.com

* Source: American Bankers Association